



January 21, 2004

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Federal Housing Finance Board
1777 F Street, N.W.
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Attention: Public Comments

The Federal Home Loan Bank of Boston (Boston Bank) commends the Federal Housing Finance Board (FHFB) for scheduling the January 23, 2004 hearing on Federal Home Loan Bank (FHLBank) board governance.

At no time in the history of the FHLBank System has there been such a strong need for qualified, knowledgeable and experienced directors. We believe there are a number of small, but significant steps that can be taken through the regulatory and legislative process that would help to assure the FHLBanks continue to attract first-rate directors. Those steps include:

Director Reappointment

There should be no formal or informal policy precluding reappointment of appointed directors. The FHLBanks are complex institutions. Both appointed and elected directors face steep learning curves when they first begin their service on the board of a FHLBank. It is contrary to the best interest of the FHLBanks, their members, the regions they serve and the broader public interest to disallow reappointment of directors at the very time when they have developed expertise and institutional knowledge.

Director Compensation

The Gramm-Leach-Bliley Act placed a cap on the compensation of FHLBank directors. The cap is not in the best interest of good corporate governance. The demands of time and commitment of directors is growing as the FHLBanks increase in size and complexity. In addition, directors of all companies face new demands and liabilities as a result of Sarbanes-Oxley and other corporate governance requirements. It may prove increasingly difficult for the FHLBanks to attract and retain the highest quality directors when compensation is significantly below that of their peers who serve as directors at comparable companies, though the performance expectations are identical. The FHFB should work with the FHLBanks to achieve this legislative change that will greatly help in the process of attracting and retaining directors with a comprehensive understanding of the FHLBanks.

Financial Interests

The current prohibitions against appointed FHLBank directors holding any financial interest in member institutions is overly broad and counterproductive. As discussed above, all parties are best served when FHLBank boards of directors have depth of experience and knowledge.

Appointive directors with strong community ties or housing backgrounds should not be precluded from serving because they receive, for example, retirement benefits from a member financial institution. We encourage the FHFB to engage in a thorough review of current law and regulations regarding conflicts of interest and revise them in such a way that doesn't unnecessarily preclude qualified individuals from serving as directors.

Financial Risk Management Expert

We believe the proposal to require the appointment of a designated risk management expert on the board of each FHLBank, while well-intended, could have the unintended consequence of encouraging other directors to defer to the designated director and discouraged from using their own independent judgment. Each director has a fiduciary responsibility to the FHLBank and its members. Their sound judgment and thoughtful independence should be encouraged. The FHLBanks, members and the general public interest are best served by the election and appointment of directors with relevant experience and background who can competently oversee the safe and sound operation of the FHLBanks.

Again, thank you for scheduling this hearing and the opportunity to comment on corporate governance at the FHLBanks. We pledge to work with you to achieve positive changes in FHLBank governance that enhance the strength and depth of the FHLBanks' boards of directors.

Sincerely,

